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TAGS: [ECON PREL IS ECONOMY AND FINANCE ISRAELI PALESTINIAN AFFAIRS GAZA DISENGAGEMENT](#)

SUBJECT: ASSISTANT SECRETARY BURNS MEETING WITH DEPUTY

PRIME MINISTER PERES

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b) and (d).

1. (S) Summary: In a January 25 meeting with NEA Assistant Secretary Burns and the Ambassador, Deputy Prime Minister

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Peres outlined GOI efforts to revitalize the Palestinian economy. Noting the unexpected success of PA Prime Minister Abu Mazen's steps toward improving the security situation, Peres predicted that a ceasefire was likely in the next few weeks and that the concept of unilateral disengagement from Gaza is "dying." The most immediate problem, according to Peres, is the immediacy of the economic need and the lack of resources and planning to address economic issues in the short run. Among Peres's proposals were a joint project for technological improvements at the border crossings, funding for a Palestinian social welfare system and investment in the Gaza agricultural sector. He plans to carry this message to Davos and to the U.S. in hopes of eliciting international and private sector support. He also proposed convening a core group to coordinate assistance efforts. End Summary.

P/A Progress on Security Exceeds Expectations

2. (S) NEA Assistant Secretary Burns met with Deputy Prime Minister Shimon Peres on January 25 to review recent improvements in the security situation and Peres' new role in charge of West Bank and Gaza economic issues and Negev and Galilee economic development. Also attending the meeting were Ambassador Kurtzer, NSC staffer Ron Danin, and Econ Counselor, notetaker. Peres was accompanied by several staff including Avi Gil and Einat Wilf.

3. (S) Peres expressed great optimism over the PA's rapid progress on security issues. In his view, both the GOI and the PA are demonstrating "unexpected generosity," and PA Prime Minister Abu Mazen is showing himself to be courageous, wise and effective. Conceding that "we weren't ready for it", Peres said the GOI had given Abu Mazen a limited chance to succeed but he had exceeded expectations. This has changed the GOI view, said Peres, who now believes it is possible for PA security forces to deploy without political or geographic discrimination throughout Gaza. He said he is also optimistic that a cease-fire is within reach by next week, noting that most points are already resolved. The concept of unilateral disengagement "is dying," Peres stated, characterizing the present situation as that of "a man who goes to sleep a bachelor and wakes up with a family."

Need for Solutions on Passages, Roads, Jobs, Infrastructure:

4. (S) With security issues "in good shape", Peres said, he is now concentrating on the economic aspects of disengagement, where he sees a large gap between "the immediacy of the problems and the lack of solutions." Peres emphasized that there are now "clear needs but unclear resources", adding that if there is no success on Palestinian economic development it will create bitterness and exacerbate the conflict. In his view, four key steps will be "modernizing" the crossings and roadblock regime, opening roads, providing jobs, and improving large-scale infrastructure.

5. (S) On border crossings, Peres said the GOI recognizes the need to modernize passages and has proposed a USD 140 million technology improvement program to that end. PA Finance Minister Fayyad has already agreed to the scheme, Peres said, noting that earlier the same day he had concluded a deal with the World Bank to raise the PA share of the needed funds. (Note: World Bank Director Nigel Roberts told Post that no firm agreement had been reached on this point, and that the Bank still supports a step-by-step approach starting with pilot projects at four border crossings. End note.) On opening roads, Peres insisted that this step requires movement towards a comprehensive cease-fire covering Gaza and the West Bank. On providing jobs, Peres believes it is especially important to renew the agriculture sector, where Palestinians already have the needed skills, and to invest in construction and infrastructure projects. In this context, he

said, it is crucial to repair damaged Palestinian hothouses and to hand over intact settlement agribusiness in tandem with disengagement.

16. (S) On infrastructure development, Peres disclosed that he has been in negotiations with Arab entrepreneurs who, in his view, "have no inhibitions over investing in Gaza." He also envisions U.S. and EU investment in industrial parks inside the West Bank and Gaza Strip -- any U.S. assistance of this nature could come primarily from the private sector, with USG "encouragement" in the form of loan guarantees or tax breaks. European involvement could be more directed, he suggested, with governments pooling money or selecting companies to take the lead on investment. The QIZ model, especially the success of the Israel-Jordan QIZ, could provide a framework for future Palestinian economic development, he added. Peres confirmed the GOI's interest in a Gazan seaport, beginning with a ro-ro port and expanding in stages to a full deep-water facility, and a railway link from Gaza to the Israeli port of Ashdod.

Social Welfare Fund to Bolster PA

17. (S) Peres also argued for the need to fund a Palestinian social welfare system that could help the PA compete with the popularity of Hamas social programs. Such a fund could cut poverty for over 200,000 people, but would need donor assistance to succeed. Peres proposed asking individual countries to commit specified annual contributions, and asked whether U.S. funding of this type could come out of the anticipated USAID supplemental. Peres revealed plans to raise this issue with U.S. Congressmen and to take this message to Davos, where he said he will be meeting with Fayyad and potential private sector contributors.

18. (S) Peres expressed interest in a late February visit to Washington to meet with Secretary Rice and discuss disengagement as well as the potential for Negev development noted in the Bush-Sharon correspondence. Peres raised his concern that the plethora of conferences could not deliver aid quickly enough, and questioned why the upcoming London conference must have limited participation. In order to take immediate action, Peres stated, "economic groups" made up of the US, Israel, the PA, EU and Japan, should be convened to explore new ideas and coordinate the economic aspects of disengagement.

A/S Burns: Combine Funding Efforts to Create Momentum

19. (S) A/S Burns agreed that rebuilding the Palestinian economy is essential to progress on security. Many different efforts could be combined within the next two to three months to create momentum on the economic side, he said. He briefed Peres on current administration efforts to reprogram funds for a short-term assistance program to support Abu Mazen's efforts and a longer-term request for supplemental assistance. In addition, he said that we would push the Arab Gulf States to live up to their assistance commitments to the Palestinians. In an earlier meeting, A/S Burns had noted that the London conference could also be an opportunity to push private sector contributions and link this to the donor conference under the AHLIC.

10. (S) Burns briefed Peres on his meetings with Egyptian PM Mubarak and other Egyptian officials saying that they are taking a positive, activist attitude toward improving the security situation by providing increased deployment of troops on the border with Gaza and a willingness to discuss Philidelphi security concerns.

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